



Memorandum

TO: Honorable Mayor and Council

FROM: Kay Winer

SUBJECT: See Below

DATE: August 23, 2006

Approved

Date

8/25/06

SUPPLEMENTAL MEMO

SUBJECT: Approval to amend an agreement with the REP Theatre

- (a) Acceptance of progress report on the long term fiscal management of the San Jose Repertory Theatre (Rep)

Reason for Supplemental Memo

Subsequent to preparation of Item 2.6 (b) that recommends an advance payment in the amount of \$225,000 for the remaining three quarterly payments for FY 2006-07, the San Jose Repertory Theatre (Rep) submitted an updated request for additional financial assistance on August 18.

This supplemental memo provides specific information on the August 18 request and the status of discussions between staff and the Rep regarding this request. Additionally, the Rules Committee, at its August 22 meeting, requested that additional information be provided that would include the following: Amount of financial request; City's Role; Involvement of Foundations; Historical Timeline; and Role of the Arts Commission in responding to such requests.

HISTORICAL TIMELINE AND AMOUNT OF ASSISTANCE REQUESTED

Rep's Request Last Fiscal Year: City and Foundations' Responses

The Rep initiated conversations with the Mayor's Office and City staff in August, 2005 with a request for a \$1 million loan. This was followed later in October by a request for a \$432,000 grant. This prompted a group of philanthropic foundations to come together to work with the Rep (Hewlett, Packard, Irvine, Knight, and Community Foundation). City staff from the Office of Cultural Affairs began participating with the "Funders Group".

On November 1, 2005, the City Council approved an advance of the final two payments of the O&M grant for the fiscal year in the amount of \$150,000.

In December 2005, the Funders Group demonstrated its interest in and commitment to the Rep by providing consultant assistance, as well as a supplemental grant. The consultant assistance produced two reports in early 2006: a Financial Assessment completed in January and an Organizational Assessment completed in February. In March, the Funders Group offered continuing financial assistance to enable the Rep to begin implementing recommendations from the reports that recommended a major “retooling of the organization for stabilization and long-term viability. City staff has continued to participate in meetings with the Funders Group and the Rep.

Chronology of Recent Requests to City Beginning June 19, 2006

The Rep submitted a formal request for assistance dated June 19, 2006 comprised of the following:

- | | |
|--|---------------------------|
| 1. Emergency funding for cash flow relief | \$650,000 |
| 2. Facility repair and improvements | \$300,000 (approximately) |
| 3. Renegotiation of building maintenance matrix | (unspecified future cost) |
| 4. Gift shop conversion | \$70,000 |
| 5. Long term debt relief (5 year letter of credit) | \$800,000 |

City staff met with the Rep on July 14 to review this list. At this meeting, the Rep summarized actions that it had already taken to begin “retooling” the organization that included an expenditure and debt reduction plan, restructuring of the Board, etc. Some of the key changes included hiring an Interim Managing Director, Development Director and Finance Director. Expenditure savings included reducing the number of productions and the direct production costs. The Rep also reported that they intend to engage the services of a consultant that would be funded by the foundations to further their efforts to stabilize and re-focus the organization,

The most pressing need was cash flow relief. Staff proposed bringing a recommendation to Council to advance \$225,000 of the O&M grant for the current fiscal year. Staff informed the Rep that this request would be brought to Council for approval in August, since the Council was on recess in July. At the time, City staff believed that the Rep was satisfied with the solution and the Rep did not press for additional assistance.

Staff also informed the Rep that the City was in the process of developing a plan to provide funding for high priority capital repair needs of the major cultural facilities. The Rep submitted a list that totals approximately \$380,000. This will be incorporated with other requests and reviewed for consideration in the budget forecast.

There was brief discussion of the Rep’s remaining requests.. Staff and the Rep agreed to meet again in approximately a month to continue discussions on the Rep’s financial situation and to receive updates on continued progress on implementing the consultants’ recommendations.

August 18, 2006 Request for \$1 Million

Staff received an updated request for assistance from the Rep on August 18 that reported a worsening financial position that projects a \$500,000 deficit at the end of the fiscal year on August 31. This was due largely to a fundraising shortfall, specifically in the area of contributed income from corporate and private donors. As a result, the cash request from the Rep had increased from \$650,000 to \$1M. The infusion of \$225,000 from the City will sustain the organization through the end of September. Because the Rep has already made commitments by selling subscriptions for the new season, going “dark” was not an option.

A follow up meeting that had been set for August 28 was moved up to August 22, at the Rep’s request. Prior to the meeting, staff spoke with the Hewlett Foundation (that had served as the “lead” for the Funders Group) to get their perspective on the progress that the Rep was making in stabilizing the organization. The Hewlett Foundation staff stated that they have had little communication with the Rep in the recent past. Consequently, they were unsure of the level of the Rep’s commitment to effect the needed changes. When we informed the Rep of our discussion with the Hewlett Foundation, they were very surprised, believing that they had been staying in close contact and communicating the changes that had been put into effect. Hearing this, the Board members immediately committed to contact each of the Foundations and re-establish frequent communication. Staff has confirmed that the Board immediately initiated contact with the Foundations.

During the meeting, staff conveyed to the Rep that any additional financial assistance that might be recommended would be in the form of a loan, rather than a grant. The City could be flexible in establishing the terms and conditions, such as deferring loan payments, establishing triggers for payment, etc. Though the Rep would prefer a grant, they felt that a loan could be feasible under certain terms and conditions. A grant could be considered if other donors came forward with grants in sizeable amounts so that the City’s contribution would be only a portion of the \$1 million.

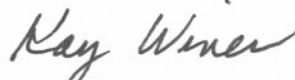
ROLE OF THE ARTS COMMISSION

The City has a number of programs that support arts organizations through a competitive process. These programs involve an application process, a timeline and a rigorous evaluation process. None of these programs is designed to assist organizations that need emergency assistance.

NEXT STEPS

Staff requested a detailed spending plan for the \$1M, as well as a summary of the status of the Rep’s business “retooling” efforts. Those reports were submitted by the Rep and are attached for your information.

Staff will continue to work with the Rep to address their cash flow problems and related core problems. The timeline for completing discussions with the Rep and reporting back to Council is the end of September. Of course, any proposed assistance by the City must take into account pending and future requests by other non-profit organizations. It should also be noted that Redevelopment Agency funds would not be eligible for the financial assistance requested, since the Rep's needs are for operational support.



Kay Winer
Deputy City Manager
(408) 535-8310

Attachments



San Jose Rep Cash Flow Projections August 1, 2006 thru August 31, 2007

1	Current Projected Cash Flow without Assistance	8/1/2006	9/1/2006	10/1/2006	11/1/2006	12/1/2006	1/1/2007	2/1/2007	3/1/2007	4/1/2007	5/1/2007	6/1/2007	7/1/2007	8/1/2007	fiscal year 2006-2007
2	Cash on hand (beginning of month)	\$ 56,271	\$ (94,122)	\$ 12,390	\$ (307,201)	\$ (544,210)	\$ (620,267)	\$ (873,156)	\$ (1,029,999)	\$ (491,796)	\$ (172,038)	\$ (92,869)	\$ 61,521	\$ 230,813	
3	Projected Cash Receipts														
4	Projected Total Box Office Receipts	\$ 31,800	\$ 105,840	\$ 96,855	\$ 93,898	\$ 136,647	\$ 20,352	\$ 57,266	\$ 844,946	\$ 596,687	\$ 347,858	\$ 237,011	\$ 233,530	\$ 78,375	\$ 2,849,264
5	Projected Total Fundraising Receipts	\$ 175,000	\$ 90,000	\$ 87,500	\$ 95,000	\$ 192,500	\$ 80,000	\$ 130,000	\$ 171,000	\$ 150,000	\$ 135,000	\$ 300,000	\$ 301,000	\$ 318,000	\$ 2,050,000
6	Projected Other Cash Receipts (Rentals, Concessions)	\$ 21,000	\$ 4,000	\$ 4,000	\$ 8,920	\$ 15,820	\$ 1,000	\$ 6,500	\$ 14,900	\$ 9,700	\$ 4,000	\$ 6,730	\$ 30,500	\$ 18,900	\$ 124,970
7	Office of Cultural Affairs		\$ 125,000						\$ 48,032						\$ 173,032
8	City of San Jose Operating Agreement		\$ 225,000											\$ 75,000	\$ 300,000
9	Projected Total Cash Receipts	\$ 227,800	\$ 549,840	\$ 188,355	\$ 197,818	\$ 344,967	\$ 101,352	\$ 193,766	\$ 1,078,878	\$ 756,387	\$ 486,858	\$ 543,741	\$ 565,030	\$ 490,275	\$ 5,497,266
10	Projected Cash Disbursements														
11	Personnel	\$ 128,983	\$ 235,120	\$ 237,167	\$ 241,315	\$ 219,759	\$ 215,265	\$ 208,337	\$ 222,227	\$ 245,821	\$ 223,822	\$ 225,914	\$ 202,284	\$ 178,020	\$ 2,655,051
12	Program Expenses	\$ 136,500	\$ 47,755	\$ 96,860	\$ 41,782	\$ 79,994	\$ 36,446	\$ 36,675	\$ 93,270	\$ 88,849	\$ 72,026	\$ 48,696	\$ 94,173	\$ 71,708	\$ 808,234
13	Marketing/Fundraising Expenses	\$ 3,700	\$ 51,684	\$ 80,315	\$ 66,050	\$ 39,667	\$ 29,400	\$ 41,167	\$ 128,099	\$ 27,250	\$ 47,381	\$ 40,932	\$ 29,249	\$ 24,188	\$ 605,384
14	Facilities/Admin Expenses	\$ 86,710	\$ 98,768	\$ 83,604	\$ 75,179	\$ 72,103	\$ 63,629	\$ 54,929	\$ 87,078	\$ 65,209	\$ 54,459	\$ 64,308	\$ 60,533	\$ 45,529	\$ 825,332
15	Interest/loan repayment	\$ 7,300	\$ 5,000	\$ 5,000	\$ 5,000	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 55,500
16	Debt (payables)	\$ 15,000	\$ 5,000	\$ 5,000	\$ 5,500	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,500	\$ 5,000	\$ 5,500	\$ 5,000	\$ 5,000	\$ 5,500	\$ 62,000
17	Projected Total Cash Disbursements	\$ 378,193	\$ 443,328	\$ 507,947	\$ 434,827	\$ 421,024	\$ 354,241	\$ 350,609	\$ 540,675	\$ 436,629	\$ 407,688	\$ 389,350	\$ 395,739	\$ 329,446	\$ 5,011,501
18	Projected Ending Cash Balance	\$ (94,122)	\$ 12,390	\$ (307,201)	\$ (544,210)	\$ (620,267)	\$ (873,156)	\$ (1,029,999)	\$ (491,796)	\$ (172,038)	\$ (92,869)	\$ 61,521	\$ 230,813	\$ 391,642	

1	Projected Cash Flow with \$1 Million Assistance	8/1/2006	9/1/2006	10/1/2006	11/1/2006	12/1/2006	1/1/2007	2/1/2007	3/1/2007	4/1/2007	5/1/2007	6/1/2007	7/1/2007	8/1/2007	fiscal year 2006-2007
2	Cash on hand (beginning of month)	\$ 56,271	\$ (94,122)	\$ 262,490	\$ 192,799	\$ 205,790	\$ 129,733	\$ 126,844	\$ (29,999)	\$ 508,204	\$ 827,962	\$ 907,131	\$ 1,061,521	\$ 1,230,813	
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7	Office of Cultural Affairs		\$ 125,000						\$ 48,032						\$ 173,032
8	City of San Jose Operating Agreement		\$ 225,000											\$ 75,000	\$ 300,000
9	City of San Jose Additional Assistance		\$ 250,000	\$ 250,000	\$ 250,000		\$ 250,000								\$ 1,000,000
10	Projected Total Cash Receipts	\$ 227,800	\$ 799,840	\$ 438,355	\$ 447,818	\$ 344,967	\$ 351,352	\$ 193,766	\$ 1,078,878	\$ 756,387	\$ 486,858	\$ 543,741	\$ 565,030	\$ 490,275	\$ 5,497,266
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SAN JOSE REPERTORY THEATRE
STATUS REPORT ON BUSINESS "RETOOLING" EFFORTS
August 24, 2006

In early 2006, as a result of long-standing financial problems experienced by the San Jose Repertory Theatre, a group of philanthropic foundations, including the City of San Jose, made recommendations on how the Company might "retool" its operations for stabilization and long-term viability. The following is bullet point list of the actions the theatres Board of Trustees has implemented, to date, to effect this "retooling":

- The Board has completed an RFP process and will engage, with foundation assistance, Albert-Hall Associates, LLC to put in place new governance and oversight structures for the Board.
- The Board has put in place a new Interim Managing Director. He, in turn, has put in place an entirely new senior staff, and eliminated and consolidated staff positions. Key positions filled over the past five months: Director of Finance, Director of Development, and Director of Marketing. These senior managers are all seasoned veterans in their discipline and have all worked in the immediate area for up to 20 years. They have worked for, and been drawn from, the Yerba Buena Center for the Arts (Finance), Second Harvest Food Bank of Silicon Valley (Development) and Arts Council of Silicon Valley (Marketing)
- The new management team has put together a balanced budget for 2006-07 projecting revenue of \$5.28M and expenses of \$5.2M. These figures are based on verified actual past performance of the company. The company has, over the past five years, earned, on average, \$5.48M annually in earned and contributed income. This average does not include funds raised by "one time-occurrence" special fundraising efforts.
- This budget not only "right sizes" the company but has a high probability of generating a modest operational surplus which will go toward reducing the deficit.
- Management has written and is implementing a 5 year Debt Reduction Plan.
- Management expects the company to stay at the \$5.28M budget level for 3 to 5 years. Adjustments to budgets, in both current and future years, will be based on actual performance to plan; a practice the Rep has not followed in the past.
- Management has completely re-vamped the internal accounting procedures which now produce accurate and timely month-end closings, cash flow projections (a tool the Rep has not used in the past), and regular and consistent financial reports for managers, senior staff, the Board and funding agencies.
- Budgets, starting with the 2006-07 Season are now built from the "bottom-up" rather than from the "top-down". Senior Managers are asked to give real data (based on past year actual costs) to the finance office who, in turn, reports to the Interim Managing Director. A collaborative process then begins between the Interim Managing Director, Artistic Director and Senior Managers to make the necessary changes so as to construct a budget that is within the theatres means.
- Management has created the new position of "Controller" to oversee daily financial activity of the company. She reports to the Director of Finance.

- In order to reduce Production costs, Management has eliminated one production from the season, going from a seven to six show line-up for 2006-07.
- The Artistic Director will utilize a greater number of local actors and directors thereby reducing travel and housing costs. The Rep has gone from renting 5 apartments to renting 2 for 2006-07.
- The Rep's Artistic Director has selected smaller cast shows for the 2006-07 season. The theatre has gone from employing 52 actors in 2005-06 to 26 actors for the 2006-07 season.
- The Rep has moved the scheduling of it's productions to allow for groups such as the San Jose Children's Musical Theatre, Cinequest, the San Jose Jazz festival and the Zero-One festival to rent the facility. This not only provides additional earned revenue, it also fulfills the original intent of the facility.

In addition to the above changes, the ship continues to sail. The Rep completed its 2005-2006 Season by meeting over 100% of its earned revenue goal and was one of the few theatres in the country to sustain its loyal subscriber base (approximately 11,000 subscribers). Documentation, communication and information-sharing reflect openness and transparency. Problem-solving and discussions are the norm.

With the engagement of Tom Hall of Albert Hall, Rep Trustees anticipate further and significant structure and definition in the areas of governance and oversight. This important step will then pave the way to substantive Strategic Planning.

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